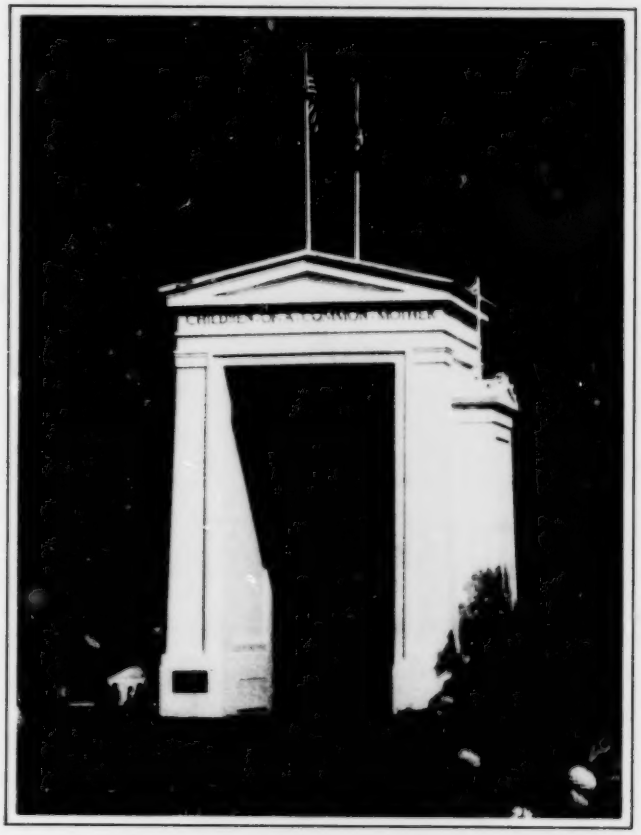
BUILDING FUTURE OPPORTUNITIES



BRITISH COLUMBIA AND THE CANADA/UNITED STATES BILATERAL TRADE NEGOTIATIONS

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BUILDING FUTURE OPPORTUNITIES

BRITISH COLUMBIA AND THE CANADA/UNITED STATES BILATERAL TRADE NEGOTIATIONS

MESSAGE FROM MINISTER

British Columbia's success as a province, even from our earliest days as wilderness pioneers, has been measured in large part by our ability to trade and compete with other parts of the world.

In the 1980's and beyond, that simple truth will continue to determine our success in meeting the challenge of creating new jobs and economic security for our children and grandchildren.

Today, as Canada and the United States work towards a bilateral trade agreement, British Columbia recognizes the tremendous opportunities that come with greater and freer access to the markets of our American neighbour.

At the same time, we understand that along with a new trade agreement comes changes that will mean additional competition for certain B.C. products and services. Nevertheless, opening the door to markets many times larger than our own presents British Columbia with unlimited job-creating opportunities.

In addition, by securing access to the markets of the United States, British Columbia and Canada will attract new international investment that will broaden our economic base and create other ventures that are not possible with our small population.

This booklet outlines British Columbia's position on the current trade negotiations and why we support the Government of Canada's efforts to achieve trade benefits through a growing and profitable relationship with the United States of America.

Should you have any questions or concerns arising from the material contained in this brochure, please contact the trade policy staff within my Ministry at (604) 356-8045 in Victoria.

At the same time, if you would like to write with your comments or suggestions, please send them to me at the Parliament Buildings, Victoria, B.C., V8V 1X4.

Honourable Grace M. McCarthy
Minister of Economic Development

I) INTRODUCTION

Overview

The Canadian government has embarked on a historic undertaking, the Bilateral Trade Negotiations, aimed at producing a trade agreement with the United States designed to benefit both countries by ensuring and enhancing trade opportunities. Although the current negotiations are not the first time that a Canada/U.S. trade agreement has been attempted, the economic arguments have never been so persuasive nor the need so pressing.

Canada and the United States have a unique trade relationship in terms of both size and irritants. Given this relationship, **bilateral negotiations are considered to be an appropriate and timely complement to the complicated and protracted multilateral trade talks.** As both Canada and the United States are signatories to the General Agreement on Tariffs and Trade (GATT), and strong supporters of the Uruguay Round, great care is being taken to ensure that the bilateral negotiations conform to GATT rules governing trade accords. These rules state that the primary effect of such an agreement must be to create trade rather than divert trade from other partners. Canada and the United States feel that they are complying with GATT regulations. Indeed aspects of the initiative, such as the negotiations on services, are expected to provide the current round of Multilateral Trade Negotiations with a framework for discussion.

Canada does not approach the bilateral trade negotiations from a position of weakness. Not only does Canada have many trade strengths on which to capitalize but we are also the United States' largest trading partner. American industry needs our products and our markets.

The agreement Canada and the United States are trying to negotiate will reduce or eliminate barriers to trade and establish a unique relationship between the two countries. It must be stressed that such a trade agreement would not be the same as forming a common market. A common market provides for the free movement of labour, capital and commodities between member countries while imposing a common tariff wall and other restrictions on trade against other nations. An example of this type of arrangement is the European Economic Community (EEC). Canada and the United States are not seeking to integrate to this extent.

British Columbia has been a strong supporter of the Bilateral Trade Negotiations from the outset, believing that they are an important element of our multilateral trading strategy.

British Columbia is highly dependent on trade for its economic well-being, exporting over 25% of total provincial output annually and importing a variety of goods ranging from vital industrial inputs to consumer products. For many British Columbians, trade means jobs and prosperity. Indeed as many as 195,000 or 15% of British Columbia jobs depend directly and indirectly on trade. Liberalized trade, which would result from an agreement, promises additional employment opportunities, diversification and a revitalization of the provincial economy. The province welcomes the opportunities that this would provide for British Columbia's workers and industries.

Negotiations Background

The Canada/U.S. Trad Negotiations process began with the 1985 meeting between Prime Minister Mulroney and President Reagan known as the Shamrock Summit, followed by a Canadian request that negotiations begin. Canada is represented in the negotiations by Chief Trade Negotiator, Ambassador Simon Reisman and the United States by Ambassador Peter Murphy.

A precedent setting aspect of the Canada U.S. negotiations is, that for the first time in a set of international trade talks, the provinces are extensively involved in the negotiating process. This situation has developed because many of the issues under discussion are either regulated provincially or under split

CANADA/U.S. TRADE NEGOTIATIONS
Key Steps in the Process

- March 18, 1985 Mulroney and Reagan agree to study concept.
- September 26, 1985 Mulroney informs Reagan that Canada wishes to open exploratory talks.
- November, 1985 Halifax declaration. Federal government agrees to full provincial participation.
- April 23, 1986 Senate Finance Committee narrowly approves fast-track negotiating authority.
- May, 1986 Meetings between Reisman and Murphy begin.
- June 2, 1986 First Ministers agree on the method of provincial participation.
- January, 1987 President Reagan endorses the negotiations in the State of the Union Address.
- Deadlines on the Negotiations.
  - October 4, 1987 agreement must be initialed.
  - January 3, 1988 expiry of fast track negotiating authority.
  - March, 1988 Congressional vote accepting or rejecting agreement.

federal/provincial jurisdiction. The First Ministers agreed in 1986 that provinces would not be directly represented at the bargaining table. Instead, the provinces are briefed about the contents of the negotiations on a regular basis and submit their views and objectives for incorporation into the Canadian negotiating mandate. As part of the consultative process, First Ministers meet on a quarterly basis to discuss the status of the talks and future negotiating positions.

Another important facet of the negotiations is that the United States obtained from Congress fast-track negotiating authority. This imposes a very strict bargaining timetable but has the advantage that the U.S. Congress can either approve or reject a final negotiated package, but *cannot* amend it. Fast-track negotiating authority expires for the President on January 3, 1988, and Congress must have 90 days prior to and up to 60 days after this date to consider the contents of an agreement. This means that the negotiations must be completed by October 4, 1987. The Congressional vote accepting or rejecting the agreement is expected in March of 1988.

II) TRADE FACTS AND FIGURES

Canada

Canada and the United States have the largest two-way flow of trade in the world. In 1986, trade between Canada and the United States totalled nearly $200 billion. Canadian exports of goods and services comprised nearly 30% of gross domestic product.

In terms of commodities the United States is the destination for nearly 80% of total Canadian exports and the source of 70% of Canadian imports. Canada accounts for approximately 25% of total United States exports and is also the United States' top ranked source of imports. Canadian exports to the United States fell slightly in 1986, while United States exports to Canada grew by nearly 6%.

Trade is not only a source of income for Canada and the U.S. but an important source of employment. It is estimated that approximately 5 million American jobs depend on exports. This means that over a million U.S. jobs exist because of trade with Canada. In the Canadian case it has been estimated that as many as 3 million people are directly and indirectly employed as a result of exports to the United States.

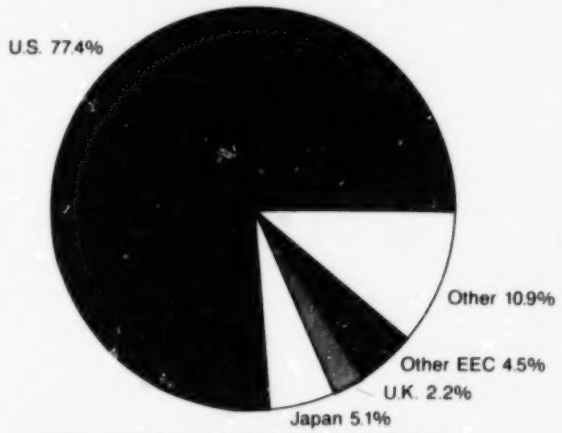
When the balance of payments accounts of both nations are examined, the importance of services trade also becomes evident. Services trade between Canada and the United States totalled nearly $25 billion in 1986. Additionally, while United States firms have invested extensively in the Canadian economy, Canadian holdings in the United States continue to increase at a faster rate.

British Columbia

While British Columbia's trade is more diversified than Canada's as a whole, nearly 50% of our total exports are destined for the United States, making the U.S. our largest trading partner and one of our fastest growing markets. In terms of regions, British Columbia exports to the U.S. are primarily bound for westcoast states such as Washington, Oregon and California. The United States' predominant position in the market for British Columbia exports, means that it will remain British Columbia's top trading partner for the foreseeable future.

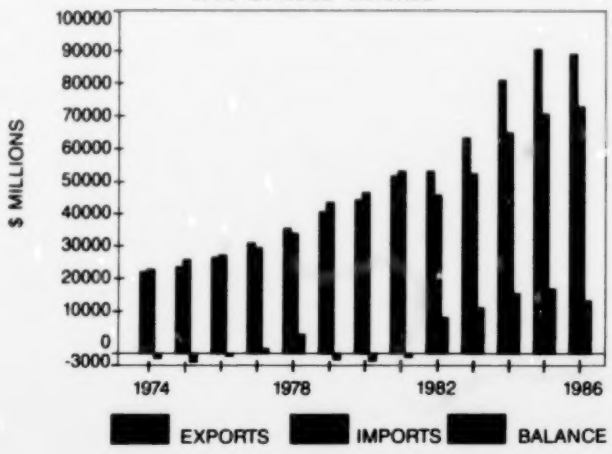
Fully 60% of total British Columbia forest product exports are destined for the United States together with 95% of energy product exports. Indeed, the United States is the sole market for such important British Columbia exports as natural gas and electricity. The U.S. is also the destination for 85% of British Columbia end products exports. Given the province's desire to expand and diversify this sector, the importance of this segment of our trading relationship is likely to increase.

DESTINATIONS OF CANADIAN EXPORTS

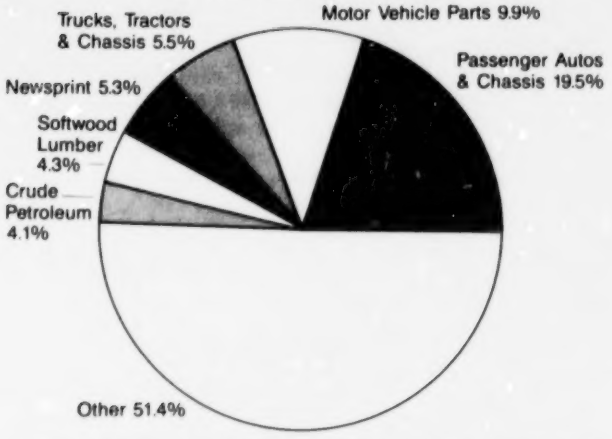


TOTAL 1986 CANADIAN EXPORTS = $116.6 B

CANADIAN BALANCE OF TRADE WITH THE UNITED STATES

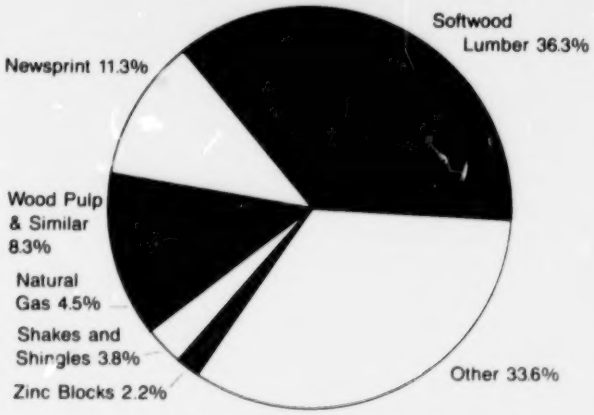


MAJOR 1986 CANADIAN EXPORTS
TO THE UNITED STATES



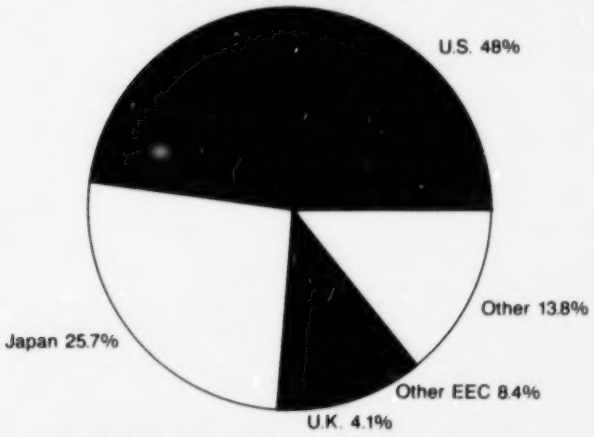
TOTAL 1986 CANADIAN EXPORTS TO THE U.S. = $90,290.6 M

MAJOR BRITISH COLUMBIA EXPORTS
TO THE UNITED STATES



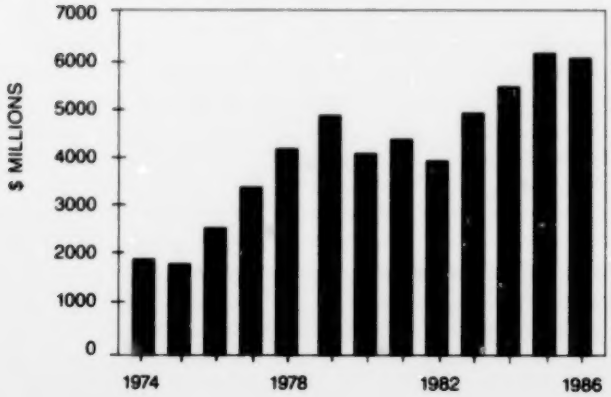
TOTAL 1986 B.C. EXPORTS TO THE U.S. = $6.1 B

DESTINATIONS OF BRITISH COLUMBIA
ESTIMATED EXPORTS



ESTIMATED TOTAL 1986 B.C. EXPORTS = $12.7 B

ESTIMATED BRITISH COLUMBIA
EXPORTS TO THE UNITED STATES



III) GENERAL PRINCIPLES FOR A CANADA/U.S. AGREEMENT

British Columbia believes that the following principles should be embodied in an agreement.

Comprehensiveness: The agreement should cover goods and services and deal with both tariff and non-tariff barriers to trade. The exclusion of any issue from the negotiations should, initially, be avoided. It must be emphasized, however, that Canadian cultural and social programs have not been included in the negotiations and that negotiations on agriculture will not cover Canada's supply management marketing boards.

International Compatibility: The agreement should be consistent with the GATT definition of acceptable free trade accords (Article XXIV) and its primary effect should be to create trade. British Columbia could not support an agreement which unfairly impaired third party trading relationships.

Transparency: The agreement should be rule-based and present in clear, unambiguous terms, definitions of key concepts such as subsidies. Our recent experience with U.S. trade law shows that trade disputes with the United States are governed by a set of rather vague rules which are subject to extensive interpretation, making it impossible to judge what the outcome of a given trade action will be.

Jurisdictional Independence: The agreement must recognize different jurisdictional authorities (for example, the provinces and the federal government). The agreement must not undermine the policy of independence of Canada and the provinces in areas of critical interest to Canadian quality of life, such as social, regional development and cultural programs.

IV) WHY THE AGREEMENT IS IMPORTANT TO BRITISH COLUMBIA

British Columbia's support for trade liberalization is based on the fact that assured access to the United States market, together with the further opening of the provincial economy to the forces of liberalized trade, will:

- **Have positive income effects;**
- **Increase job opportunities for current and future generations;**
- **Reduce costs;**
- **Increase the availability of goods and services to producers and consumers.**

The Minister of Economic Development, the Honourable Grace M. McCarthy, initiated a series of private sector consultations to ascertain the position of British Columbia consumer interests and industry regarding the Canada/U.S. free trade negotiations. These consultations were undertaken to ensure that the impacts of a trade agreement on the British Columbia economy are fully understood and evaluated. The consultations have given a strong measure of support to the Government of British Columbia's position as an advocate and proponent of freer trade.

Large sectors of the business community have expressed excitement about the opportunities a free trade agreement will provide. The strongest supporters are representatives from British Columbia's resource-based industries and the professional service sector.

Whereas the majority of British Columbia firms will obtain positive opportunities from an agreement, certain industry sectors will be adversly impacted. The Government of British Columbia will work with industry groups to develop appropriate adjustment assistance programs, if required. The ten-year phase-in period, an integral part of any agreement, is recognized by most British Columbia industries as an adequate transition period.

Another positive aspect of a trade agreement would be the impetus and opportunity it provides, via increased U.S. market access and additional investment, to prepare the British Columbia economy for the twenty-first century. Adjustments to changing world circumstances are occurring continuously, however, for the sake of future prosperity, **British Columbia must actively seek to diversify its economic base.** This means placing greater emphasis on the production of higher value-added items. For example, metal ores could be refined and then used by British Columbia businesses to produce items such as wire, tools and machinery parts. Too often, we export our natural resources and let others convert them into manufactured products which we often buy back at considerable expense. Diversification would expand our economy and boost existing natural resource industries.

The province must also work hard to attract and develop high technology industries. Such firms and businesses have an excellent growth potential and will keep the province in the mainstream of technological advance. To do otherwise would isolate British Columbia from global trends and give rise to the possibility that our products and services will gradually be outpaced. Better access to investment and U.S. technology will help the province accomplish this objective. The development of a diversified economic base which is less reliant on resources will, in addition, help insulate the provincial economy from downturns in world commodity prices which have caused recessions in the past.

Trade is also the only means available by which British Columbia along with the rest of Canada, can develop a sufficiently large market base to exploit economies of scale in manufacturing and resource development. Most other major industrialized nations have open access to markets of 100 million people or more and consequently enjoy cost, production and marketing advantages. **Secure access to the United States would create a "domestic market" of nearly 270 million people and provide impetus for British Columbia firms to specialize and increase efficiency. A trade agreement would form the richest free trade area in the world.**

The benefits of a Canada/U.S. agreement are not limited to bilateral trade. The more efficient production of a diversified range of goods will increase the province's global competitiveness, expanding export opportunities. Indeed, it is not a contradiction to say that a bilateral trade agreement with the United States may ultimately reduce our reliance on this market.

These positive attributes of an agreement are compounded by the knowledge that **the existing status quo is inherently unstable and too uncertain to stake the province's future on.** Access to world markets is becoming more difficult because of increasing protectionism, particularly on the part of the United States.

The U.S. protectionist mood has manifested itself in several ways. Congress is developing trade bills designed to reduce high U.S. trade deficits, while trade remedy law is being used far more aggressively. To put this in perspective, **one third of total British Columbia exports to the U.S. are currently affected by trade actions.** The United States lumber countervail and shakes and shingles safeguard actions have had severe impacts on the province and other commodities are at risk. Obviously this is a serious problem for British Columbia especially since the United States is the most logical and accessible direction in which to expand trade.

The reality of today's trade status quo is not the continued existence of relatively open access to the United States market, but a deteriorating relationship

with our most important trading partner. Trade is vital to the province and therefore this situation can not be allowed to worsen. This is not to say that freer trade is the solution to all our economic problems. Rather it is an important component of a provincial economic strategy, which aims to advance the economic well-being of all British Columbians.

V) BRITISH COLUMBIA OBJECTIVES

The British Columbia Government has an extensive work program on the bilateral trade talks and has been working hard to have the objectives developed by this process realized in the negotiations.

These objectives are based on the province's general principles for a Canada/U.S. agreement and the extensive private sector consultations.

In general British Columbia seeks to:

- **Broaden and diversify the provincial economy;**
- **Secure and enhance existing access to the United States market;**
- **Maximize consumer benefits (lower prices, increase diversity); and**
- **Minimize the costs to British Columbia and British Columbians of obtaining a Canada/United States trade agreement.**

It is British Columbia's opinion that the negotiations should **seek to establish as high a level of "National Treatment" for goods and services as possible.** National treatment would mean that Canadian and U.S. products entering each other's markets would be treated as if they were of domestic origin.

As the negotiations have proceeded along functional lines it is important to translate these general objectives into British Columbia interests in specific issue areas.

Trade Remedy Law

One of the most important objectives of a Canada/United States trade agreement as far as British Columbia is concerned is to obtain relief from U.S. trade remedy law.

Trade remedies or contingency protection measures such as countervailing and anti-dumping duties and import safeguards are imposed by countries to prevent or mitigate serious injury to domestic industries due to imports. Countervailing duties are specifically used to neutralize the competitive advantage of unfairly subsidized imports.

In recent years, United States trade remedy law cases against such British Columbia exports as shakes and shingles and softwood lumber have had serious impacts on British Columbia's economy. This trend must not continue.

A Canada/U.S. trade agreement would benefit British Columbia by disciplining the use of trade remedies in both countries and by establishing a framework to resolve future trade disputes. A joint dispute settlement mechanism would ensure that a consistent set of rules were in place to govern trade between Canada and the United States. After all a "level playing field" is of very little use to any of the players if the rules of the game have not been agreed upon.

In conjunction with subsidy discipline, the trade agreement should describe clearly what is meant by "subsidies" and other terms which are currently loosely defined. This approach would make the United States' use of trade remedy law redundant, and simultaneously protect Canada from U.S. use of unfair subsidy programs. Similarly, Canada and the provinces would not be able to indulge in unfair trade practices such as trade distorting subsidies, nor use Canadian trade remedy legislation against U.S. products. Access to each country's markets would become more secure as a result.

Secure access is also required to encourage the growth and retention of investment in British Columbia. It has often been said that investment in Canada has been stimulated by high tariff walls which assured better market access to firms establishing businesses behind those barriers than to those trying to jump over them. **Today the United States is encircling itself with rising walls of protectionism and just as in the situation of high tariffs, foreign and Canadian businesses are locating behind these walls in order to escape the difficulties of uncertain access.** Secure access to the United States market will, therefore, increase the investment attractiveness of British Columbia. Foreign investors, especially those targetting a large share of their expected production at the United States, will be encouraged to locate in the province while domestic investors will be encouraged to keep their capital in Canada. Greater investment will also mean better access to advanced technologies and modern processing and production techniques.

Tariff Barriers

Successive rounds of tariff reductions through the GATT have significantly reduced many Canadian and U.S. tariffs but important tariff barriers remain. British Columbia would benefit if specific U.S. tariffs were reduced or eliminated and if certain Canadian barriers on items such as machinery and equipment were eliminated. The total removal of all tariffs is the current position in the negotiations and this stance has British Columbia's support. Seasonal tariffs for horticultural products are being dealt with separately in the Agriculture discussions.

The removal of tariffs will not take place immediately. An adjustment period of up to ten years is envisaged to permit industries to adjust to functioning in a competitive environment.

Investment

It is to British Columbia's advantage to liberalize investment rules making the province a more attractive investment location. For this reason, the province supports the broadening of the investment negotiations beyond trade related investment measures. The adoption of a national treatment approach towards investment would accomplish this goal. This would mean that United States investments in Canada or Canadian investments in the United States would be treated as if they originated domestically, and therefore would be subject to the same rules.

Services

The United States has attached considerable importance to the inclusion of services in the Bilateral Trade Negotiations. These negotiations will serve as a model for the upcoming round of multilateral trade talks on services.

It is in British Columbia's best interests to preserve and enhance access of Canadian services to the United States market. **The services sector makes up over two-thirds of British Columbia's output and employment and will be an important source of future economic and export growth.** British Columbia services industries enjoy relatively free access to the U.S. market in several areas and could benefit from a further reduction of barriers in others. For example, easier U.S. access for Canadian "service" personnel fulfilling maintenance and repair contracts or offering professional services would make certain British Columbian products and services more competitive. The province also wants to have easier access to world class service offered by the United States.

Government Procurement

Currently procurement preferences based on the origin of the product are levied by many government agencies. For example, a price advantage may be given to a local producer over a foreign or out-of-province supplier. British Columbia has very liberal procurement practices and is disadvantaged by the blatant discrimination of others. **It is to the benefit of every taxpayer to award contracts on the basis of best product for best price.**

The province seeks the liberalization of government purchasing practices in the United States and Canada at both the national and sub-national (provincial and state) levels. Within the negotiations Canada is advocating a national treatment approach, meaning that firms of either nation would be treated equally when bids on government contracts were being considered. If this proposal is accepted British Columbia would not only gain access to the $141 billion procurement market of the U.S. Pacific Northwest but would also obtain improved access to other Canadian markets.

Agriculture

Agricultural issues are being discussed in the trade negotiations as a separate sector. Both Canada and the U.S. are cognizant that this is a very complicated and difficult area to negotiate. As both countries support the inclusion of Agriculture in the multilateral trade negotiations, the bilateral trade talks are serving as "primer" for discussions in the Uruguay Round of the GATT.

Canada is adamant that supply management marketing boards are not negotiable. British Columbia supports this position and insists that seasonal tariffs for horticultural products or an equivalent programme must be retained to offset size and climatic advantages enjoyed by U.S. producers.

An issue of particular interest to the United States being dealt with under the "Agriculture" heading is alcoholic beverages. The United States has complained about the differential pricing and mark-up policies for alcoholic beverages imposed by Canadian provinces which favour local production.

Industrial and Labour Adjustment

Although the benefits of obtaining a trade agreement with the United States are expected to be significantly greater than the costs, a Canada/U.S. trade agreement may generate severe competitive pressures for some British Columbia industries and firms. **The phasing of trade barrier reductions will significantly ease the transition to more open market conditions, however, some adjustment problems will likely remain.** British Columbia seeks the adoption of effective adjustment programs at both federal and provincial levels to minimize the economic and social costs associated with a Canada/U.S. agreement. The right and authority to develop such programs must be guaranteed within the agreement.

Conclusion

To ignore the potential of a bilateral trade agreement is to believe in the illusion that the existing trade environment is "fine" and that change is unnecessary. In reality, today's status quo means a deteriorating relationship with our major trading partner, future United States trade actions aimed at British Columbia commodities, decreasing investment and reduced export potential.

A Canada/U.S. trade agreement provides British Columbia with a chance to build our existing economy into one capable of meeting the challenges and demands of the future. **The combination of secure access to the United States market, liberalized investment, open procurement policies and reduced trade barriers provides excellent opportunities for entrepreneurs and promises dynamic economic growth for the province.**